

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR & ALFALFA FESTIVAL
LANCASTER, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-048
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR & ALFALFA FESTIVAL
LANCASTER, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

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AUDIT REPORT NUMBER

#08-048

50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR& ALFALFA FESTIVAL
LANCASTER, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Stephen McElroy, President
Board of Directors
50th DAA, Antelope Valley Fair & Alfalfa Festival
2551 West Avenue H, Suite 102
Lancaster, California 93536

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 50th District Agricultural Association (DAA), Antelope Valley Fair & Alfalfa Festival, Lancaster, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 50th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

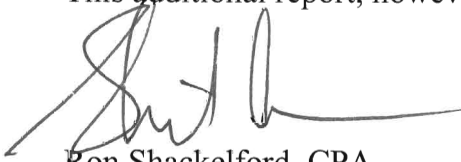
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 50th DAA, Antelope Valley Fair & Alfalfa Festival, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 50th DAA, Antelope Valley Fair & Alfalfa Festival has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-048 on the 50th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 50th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in black ink, appearing to read 'Ron Shackelford', with a long horizontal flourish extending to the right.

for Ron Shackelford, CPA
Chief, Audit Office

June 18, 2008

**50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR & ALFALFA FESTIVAL
LANCASTER, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006**

	Account Number	2007	2006
ASSETS			
Cash in Bank	111 - 117	\$ 2,604,442	\$ 1,817,720
Accounts Receivable, Net	131	219,768	309,957
Inventory	141	3,606	-
Deferred Charges	143	11,759	15,383
Construction in Progress	190	5,444,824	829,685
Land and Land Improvements, Net	191	6,260,728	6,261,453
Buildings and Improvements, Net	192	22,115,067	22,894,372
Equipment, Net	193	923,876	865,160
TOTAL ASSETS		<u>37,584,070</u>	<u>32,993,730</u>
LIABILITIES AND NET RESOURCES			
Liabilities and Other Credits			
Accounts Payable	212	232,313	160,343
Current Portion of Long Term Debt	212.5	154,304	149,052
Taxes Payable	213 - 226	8,387	13,560
Deferred Income	228	96,913	-
Guaranteed Deposits	241	83,905	91,612
Compensated Absences Liability	245	123,480	109,505
Long Term Debt	250	2,069,142	2,223,447
Total Liabilities and Other Credits		<u>2,768,444</u>	<u>2,747,518</u>
Net Resources			
Net Resources - JLA	251	17,286	(1,834)
Net Resources - Operations	291	2,277,293	1,769,874
Net Resources - Capital Assets, Less Related Debt	291.1	32,521,047	28,478,172
Total Net Resources Available		<u>34,815,626</u>	<u>30,246,212</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 37,584,070</u>	<u>\$ 32,993,730</u>

**50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR & ALFALFA FESTIVAL
LANCASTER, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2007 and 2006

	<u>Account Number</u>	<u>2007</u>	<u>2006</u>
REVENUE			
State Apportionments	312	\$ 40,000	\$ 40,000
Capital Project Funds	319	4,445,696	594,029
Admissions	410	875,834	864,006
Commercial Space	415	173,527	162,168
Carnival	421	365,966	396,876
Concessions - Food	422-423	495,639	579,099
Exhibits	430	38,579	39,706
Satellite Wagering	450	1,158,085	1,179,479
Attractions	460	722,156	491,922
Miscellaneous Fair	470	663,389	641,960
Junior Livestock Auction Revenues	476	57,883	34,292
Non-Fair Revenues	480	1,238,080	1,049,721
Prior Year Revenue Adjustment	490	15,300	2,942
Other Revenues	495	347,247	240,995
Total Revenue		<u>10,637,380</u>	<u>6,317,195</u>
EXPENSES			
Administration	500	744,491	671,812
Maintenance and Operations	520	607,917	575,167
Publicity	540	381,094	363,897
Attendance	560	460,496	405,804
Miscellaneous Fair	570	174,308	207,060
Junior Livestock Auction Expenses	576	38,762	131,801
Premiums	580	53,870	52,256
Exhibits	630	98,340	110,868
Satellite Wagering	650	754,294	787,184
Attractions - Fairtime	660	1,733,888	1,270,996
Equipment	723	77,217	125,315
Prior Year Expense	800	11,593	4,133
Cash Over/Short	850	3,489	8,009
Depreciation Expense	900	928,208	949,790
Total Expenses		<u>6,067,967</u>	<u>5,664,092</u>
RESOURCES			
Net Change - Income / (Loss)		4,569,414	653,103
Resources Available, January 1		30,246,212	29,593,109
Resources Available, December 31		<u>\$ 34,815,626</u>	<u>\$ 30,246,212</u>

**50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR & ALFALFA FESTIVAL
LANCASTER, CALIFORNIA**

STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$4,569,414	\$ 653,103
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	90,189	(175,661)
(Increase) Decrease in Inventory	(3,606)	-
(Increase) Decrease in Deferred Charges	3,623	(15,382)
Increase (Decrease) in Accounts Payable and Accrued Expenses	71,970	15,014
Increase (Decrease) in Current Portion of Long-Term Debt	5,253	5,052
Increase (Decrease) in Sales and Payroll Taxes Payable	(5,173)	(413)
Increase (Decrease) in Guaranteed Deposits	(7,708)	(14,703)
Increase (Decrease) in Deferred Revenue	96,913	-
Increase (Decrease) in Leave Liability	13,975	741
Total Adjustments	<u>265,436</u>	<u>(185,352)</u>
Net Cash Provided (Used) by Operating Activities	<u>4,834,850</u>	<u>467,751</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease for Land and Land Improvements	725	-
(Increase) Decrease for Building and Improvements	779,305	472,286
(Increase) Decrease for Equipment	(58,716)	6,293
(Increase) Decrease for Construction in Progress	<u>(4,615,138)</u>	<u>(725,472)</u>
Net Cash Provided (Used) by Investing Activities	<u>(3,893,823)</u>	<u>(246,893)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Loans Payable, Capital Asset	<u>(154,305)</u>	<u>(149,052)</u>
Net Cash Provided (Used) by Financing Activities	<u>(154,305)</u>	<u>(149,052)</u>
NET INCREASE (DECREASE) IN CASH	786,722	71,806
Cash at Beginning of Year	1,817,720	1,745,914
CASH AT END OF YEAR	<u><u>\$2,604,442</u></u>	<u><u>\$1,817,720</u></u>

**50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR & ALFALFA FESTIVAL
LANCASTER, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 50th District Agricultural Association (DAA) was formed in 1938 for the purpose of sponsoring, managing, and conducting the Antelope Valley Fair and Alfalfa Festival each year in Lancaster, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents – The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and

remits the entire amount to the state Board of Equalization. The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31, 2007:

	<u>2007</u>	<u>2006</u>
Petty Cash & Change Funds	\$ 97,050	\$ 3,150
Cash in Bank - Operating	89,766	85,780
Cash in Bank – W&W Operating	55,399	70,724
Cash in Bank – Fair ATM	3,000	6,692
Cash in Bank – W&W ATM	35,980	25,986
Cash in Bank - JLA	11,294	2,029
Cash in Bank - Payroll	4,363	1,514
Cash in Bank – Time Deposits	2,049,118	1,623,301
Cash in Bank-Time Deposits-Restrict	259,517	-
Cash in Bank – Time Deposits - JLA	(1,456)	(1,456)
Cash in Bank – Merchant	411	-
Total Cash and Cash Equivalents	<u>\$ 2,604,442</u>	<u>\$ 1,817,720</u>

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable	\$ 202,911	\$ 295,740
Interest Receivable	30,078	22,817
Allowance for Doubtful Accounts	<u>(13,221)</u>	<u>(8,599)</u>
Accounts Receivable - Net	<u>\$ 219,768</u>	<u>\$ 309,957</u>

NOTE 4 LAND IMPROVEMENTS, PROPERTY, AND EQUIPMENT

Land and land improvements, buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Land & Land Improvements	\$ 6,261,453	\$ 6,261,634
Less: Accumulated Depreciation – Exhaustible Land Improvements	<u>(725)</u>	<u>(181)</u>
Land and Land Improvements - Net	<u>\$ 6,260,728</u>	<u>\$ 6,261,453</u>
 Building & Improvements	 \$24,408,068	 \$24,364,252
Less: Accumulated Depreciation	<u>(2,293,001)</u>	<u>(1,469,880)</u>
Building & Improvements - Net	<u>\$22,115,067</u>	<u>\$22,894,372</u>
 Equipment	 \$ 1,648,136	 \$ 1,484,877
Less: Accumulated Depreciation	<u>(759,042)</u>	<u>(619,717)</u>
Equipment - Net	<u>\$ 889,094</u>	<u>\$ 865,160</u>

NOTE 5 SOLOR PANEL PROJECT

The 50th DAA entered into a sublease purchase agreement with the California Construction Authority (CCA) to install solar panels at the fairgrounds as a mechanism to generate electricity and reduce energy bills. Approximately half of the final cost of the project will be subsidized by a utility grant from an energy company. As of December 31, 2007, the 50th DAA has recorded \$4,359,196 of costs related to this project in Account #190, Construction in Progress.

NOTE 6 LONG-TERM DEBT

As mentioned above, the DAA has entered into a long-term loan and a long-term lease agreement with California Construction Authority (CCA) to finance the Photovoltaic power-generating project and marquee on the fairgrounds, respectively. The terms of the agreements are as follows:

CCA Photovoltaic Loan:

Loan Amount	\$ 2,000,000
First Payment Date	May 2004
Payment Amount	\$ 10,462.18
Duration of Loan	183 Months
Interest Rate	2.360%
Total Outstanding at 12/31/07	\$ 1,707,347
 Current Portion at 12/31/07	 \$ 86,181
Long-Term Portion at 12/31/07	\$ 1,621,166

CCA Marquee Lease:

Loan Amount	\$ 726,575
First Payment Date	July 2004
Payment Amount	\$ 7,653.96
Duration of Lease	121 Months
Interest Rate	4.89%
Total Outstanding at 12/31/07	\$ 516,099
Current Portion at 12/31/07	\$ 68,123
Long-Term Portion at 12/31/07	\$ 447,976

NOTE 7

RETIREMENT PLAN

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 8 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR & ALFALFA FESTIVAL
LANCASTER, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 50th DAA Board of Directors
1	Chief Executive Officer, 50th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR & ALFALFA FESTIVAL
LANCASTER, CALIFORNIA

MANAGEMENT REPORT #08-048

YEAR ENDED DECEMBER 31, 2007

50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR & ALFALFA FESTIVAL
LANCASTER, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

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Patricia Moore

Audit Chief
Assistant Audit Chief
Auditor
Auditor

MANAGEMENT REPORT NUMBER
#08-048

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Stephen McElroy, President
Board of Directors
50th DAA, Antelope Valley Fair & Alfalfa Festival
2551 W Avenue H, Suite 102
Lancaster, California 93536

In planning and performing our audit of the financial statements of the 50th District Agricultural Association (DAA), Antelope Valley Fair and Alfalfa Festival, Lancaster, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Antelope Valley Fair and Alfalfa Festival with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 50th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 50th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur,



will be detected by the 50th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 50th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 50th DAA's accounting procedures, records, and substantiating documents.

During our review of the internal control structure of the 50th DAA and compliance with State laws and regulations, we identified one area with reportable conditions that are considered weaknesses in the Fair's operations: sponsorship agreements. We have provided two recommendations to improve the operations of the Fair. The Fair must respond in writing on how each recommendation will be implemented.

We identified areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 50th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

SPONSORSHIP AGREEMENTS

The Fair did not obtain approval from the Division of Fairs and Expositions (F&E) for several standard agreements entered into with a sponsorship contractor in 2007 that exceeded \$100,000 and/or the terms of the agreements were greater than two years. According to F&E's Contract Manual (updated as of March 2008) section 6.40, Sponsorship Contracts, and Food and Agriculture Code section 4051.1, all Fairs are required to obtain approval from F&E for sponsorship contracts that (i) exceed \$100,000 in value, (ii) have a term of over two years, or (iii) contemplate the building of a permanent structure on fair property. The Fair is required to obtain an approval from F&E prior to entering and the execution of the agreement since the Fair is under their jurisdiction.

In addition, our office noted the Fair's board of directors has not established sponsorship agreement procedures as required by F&E's Contract Manual (updated as of March 2008) section 6.40. According to this section, the Fair's board of directors must establish procedures for entering into sponsorship agreements, and procedures must be approved by the board and maintained on file.

Recommendations

- 1. The Fair should comply with the F&E Contract Manual Section 6.40 and Food and Agriculture Code Section 4051.1 by ensuring F&E approval is received for sponsorship agreements having a term of over two years or a value exceeding \$100,000.*
- 2. The Fair's board of directors should establish sponsorship agreement procedures in compliance with the F&E Contract Manual Section 6.40. The procedures would provide clear direction for staff to follow when securing these agreements from entities that conduct business with the Fair.*

NON-REPORTABLE CONDITIONS

ACCOUNTING FOR FIXED ASSETS

Upon examining the Fair's fixed asset records, our office identified a land improvement, a \$16,324 waterfall constructed in 2006, which meets the definition of an exhaustible land improvement within Government Accounting Standard Board (GASB) Statement #34. According to the CDFA Fixed Asset Manual, Fixed Assets Policies and Procedures, Paragraph H *Depreciation Method and Rates*, land improvements that deteriorate with use or the passage of time are required to be depreciated over a 30 year period using the straight line method of depreciation. As of December 31, 2007, none of the amounts identified by the Fair as land improvements were being considered for depreciation.

Recommendation

The Fair should make the necessary correcting journal entry to ensure the amount spent on the waterfall is being depreciated for future accounting periods. In addition, the Fair should attempt to identify other items within the Fixed Assets account, Land Improvements, which are considered exhaustible and should also be depreciated.

STANDARD AGREEMENTS

Our office noted that the 50th DAA did comply with F&E Contract Manual Section 3.00 that requires the use of the contract form STD 213 when writing standard agreements that exceeded \$10,000, and form STD 210 when the contract is less than \$10,000. However we found that the Fair did not attach a form STD 215 *Agreement Summary* to each of their STD 213 *Standard Agreement(s)* as required by F&E Contract Manual Section 3.00.

Additionally, we noted in our review that the Fair had entered into a multi-year service agreement that began in 2005 and is payable on a month to month basis that did not have the "not to exceed clause," as required by F&E Contract Manual Section 5.00.

Recommendations

The Fair should comply with F&E Contract Manual Section 3.00 and assure that all agreements over \$10,000 are written on form STD 213 with the attached form STD 215 summarizing the terms of the agreement.

The Fair should comply with F&E Contract Manual Section 5.00 to make certain that all standard agreements that do not list a specific date line for the services to be performed and paid, or that use the unit rate of payment, would be written to include the "not to exceed clause" within the agreement.

119-DAY EMPLOYEES

Upon examination of the temporary 119-day employees remunerated by the 50th DAA in 2007 our office noted the following deficiencies:

Management Report #08-048

Lancaster, California

- a. The 50th DAA allowed five temporary employees to work in excess of the 119-day limitation within a calendar year. The five employees' total days worked ranged from 123 to 175 days in 2007. According to CDFA Fairs & Expositions Accounting Procedure Manual (APM) Section 3 § 4.34 temporary employees may not work more than 119 days in a calendar year.
- b. The Fair did not require one temporary employee to complete time cards in 2007. The Fair indicated that the temporary employee was paid a salary. In consideration of the APM regarding temporary employees and the 119-day limitation placed on the Fair, it is necessary for all temporary employees to complete a time card that can be reviewed and signed by a supervisor, and ultimately used to track the number of days each temporary employee works in a calendar year. This was a prior year finding.

Recommendation

The Fair should continue to monitor the number of days worked by temporary employees to ensure that the 119-day limitation is not exceeded. In addition, the Fair should comply with the APM by ensuring temporary employees do not work in excess of the 119-day limitation.

The Fair should comply with the Accounting Procedures Manual, Section III §4.1 that requires maintenance of time cards for all employees to ensure compliance with labor laws. Furthermore, each time card should be reviewed and approved by the employee's supervisor to ensure the time reported is accurate.

COMPENSATED LEAVE LIABILITY

Our office noted that the 50th DAA allowed two of their managerial employees to accrue more than 640 hours of annual leave at year-end 2007. Accruing hours in excess of the limitation is prohibited by Department of Personnel Administration (DPA) Rule 599.752. As of December 31, 2007 the employee balances were 708 and 665 hours, an excess of 68 and 25 hours, respectively.

Recommendation

The Fair should develop a plan to reduce the annual leave balances of the two managerial employees who have exceeded the 640-hour limitation set forth in DPA Rule 599.752.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



ANTELOPE VALLEY
FAIRGROUNDS

December 5, 2008

California Department of Food & Agriculture
Ron Shackelford, CPA
Chief, Audit Office
1220 N Street, Room 344
Sacramento, CA 95814

RE: Management Report #08-048

Dear Mr. Shackelford:

In response to the audit of the 50th District Agriculture Association for the period ended December 31, 2007, we are enclosing our comments for the implementation of necessary corrections as recommended.

Sponsorship Agreements:

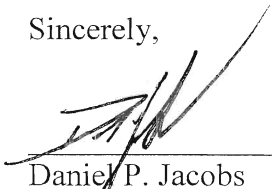
The fair is submitting the agreement to F&E for approval and will submit any future contracts over \$75,000 and multi-year as required by the Contracts Manual.

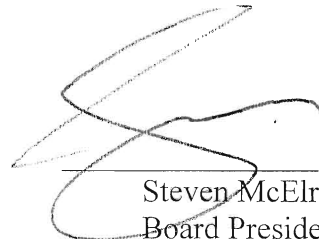
The fair has established a sponsorship agreement procedure in compliance with F&E's Contract Manual that will be adopted in our policy manual for the year 2009. Although we had no formal, written policy, the board and management has directed the obtaining of sponsorships for years according to F & E Contract Manual.

The board, management and staff have reviewed the non-reportable items as well and are in the process of implementing corrections.

The management and board of directors recognize their responsibility to safeguard the assets and financial operations of the 50th District Agricultural Association and appreciate the audit office for their guidance.

Sincerely,


Daniel P. Jacobs
General Manager


Steven McElroy
Board President

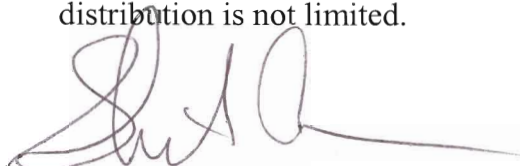
CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 50th DAA, Antelope Valley Fair and Alfalfa Festival, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between June 2, 2008 and June 18, 2008. My staff met with management on June 18, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.


For Ron Shackelford, CPA
Chief, Audit Office

June 18, 2008

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 50th DAA Board of Directors
1	Chief Executive Officer, 50th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office